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Controller Westly Announces Reforms to Rein In Underground Economy

Tax Gap Symposium Identifies Solutions for Collecting Taxes Owed

Sacramento – State Controller and Franchise Tax Board Chair Steve Westly today announced four major solutions to close the \$6.5 billion tax gap – taxes owed but not collected.

“Tax cheats are taking money out of the pockets of Californians who pay their fair share, and yesterday’s discussion inspired some excellent solutions we will take action on,” Westly said. “Every dollar we collect can help spare public services that are on the chopping block during the budget crisis.”

The Underground Economy, the biggest contributor to the tax gap, includes people who operate in cash “under the table,” people who don’t file or report their full income. Other factors, such as people who abuse tax shelters, contribute to the tax gap. The federal income tax gap is \$255 billion annually.

Westly said he will work with lawmakers to pull together a legislative package that would:

- Improve data matching
The FTB currently matches W2s and 1099s against tax returns. By using state and local property tax records, FTB can help identify people not paying their fair share.
- Clamp down on tax preparers
Tax preparers who advise clients to cheat, and their clients, will face audits by the FTB to ensure compliance with tax laws.
- Increase enforcement
With expanded audit staff, FTB could ensure compliance and collect what people owe. Auditors currently recover five times their salary so any investment in audit staff pays for itself.
- Enforce misdemeanor charges
In addition, Westly will ask the FTB to use its administrative authority to enforce misdemeanor criminal charges for major offenders who currently only face financial penalties.

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Controller Westly plans to work with the leadership of both houses, as well as Assemblymember Judy Chu, who is authoring a tax amnesty bill; Assembly Majority Leader Dario Frommer, who partnered with Westly on this year's Voluntary Compliance Initiative targeting abusive tax shelters; and Assemblymember Darrell Steinberg and Senator Gil Cedillo who are also concerned about the revenue lost to the tax gap.

"The legislature has some very difficult decisions to make, especially in difficult budget times, and we can ease the pain by collecting revenue already owed," Westly said. "I look forward to working with lawmakers to do just that."

Wednesday's symposium included tax experts, such as Professor Joseph Bankman from Stanford University; Alan Plumley from the IRS National Office of Research; Jill Mariani, Chief of the Money Laundering and Tax Crimes Unit, New York County, New York; and Brian Erard, B. Erard and Associates, Tax Policy Research Consultants.

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